

Indiana State Board of Accounts

Internal Controls

Cities & Towns

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Contact Information



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Internal Controls



- ✓ **Components of Internal Control**
- ✓ **Creating an Effective Internal Control System**
- ✓ **Compensating Controls for all Sized Units**
- ✓ **What Internal Controls Do & Don't Do**
- ✓ **Case studies**

Creating Internal Controls



What are Internal Controls

- IC 5-11-1-27 – to promote government accountability & transparency
- IC 5-11-1-27(e) – SBOA defines the acceptable minimum level of standards
- *Uniform Internal Control Standards for Indiana Political Subdivisions*

Creating Internal Controls - Defined

**SBOA definition:**

- Internal control is a process executed by officials and employees that is designed to provide reasonable assurance that the objectives of the political subdivision will be achieved;
- It is a basic element fundamental to the organization, rather than a list of added on tasks;
- It is an adaptable process that is a means to an end, not an end in itself;

Creating Internal Controls - Defined

**SBOA definition (continued):**

- It is focused on the achievement of objectives; and
- It is dependent on officials and employees for effective implementation.

Uniform Internal Control Standards for Indiana Public Subdivisions, p. 3

Internal Controls Standards



UNIFORM INTERNAL CONTROL STANDARDS
FOR INDIANA POLITICAL SUBDIVISIONS



Paul D. Joyce, CPA
State Examiner

September 2015

SECTION ONE

Minimum Level of Internal Control Standards

- Five Components
- Seventeen Principles

SECTION TWO

Approved Training Materials

- Video Presentation
- Examples
- Case Studies

www.in.gov/sboa/files/UniformInternalControlStandards.pdf

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Internal Controls Objectives

**Operations**

- Operational & performance goals; best use of resources

Reporting

- Financial Statements, 100-R, etc.

Compliance

- Adherence to laws & regulations

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Internal Controls



Internal Control Components:

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring



Creating Internal Controls – Getting Started



educegroup.com

Don't reinvent the wheel

- Identify existing controls

Document, document, document

- Write down who does what
- Make lists

Creating Internal Controls – Getting Started (continued)

**Establish Control Environment**

- “Tone at the top”
- Missions, goals, and objectives
- Structure, organization, reporting chains

Review & Analyze Current Controls

- Look for weak areas
- Assess risk & take appropriate actions

Creating Internal Controls – Getting Started (continued)

**Evaluate Resources**

- Staffing levels, other assets

Assign Duties/Tasks/Activities

- Control activities

Communicate

- Handbooks, training sessions, etc.

Creating Internal Controls – Getting Started (continued)



Monitoring

- Implement controls to ensure everything you've established is being completed
- Obtaining goals & objectives?
 - If not – modify existing controls



<https://www.evolvetechnology.com/2017/01/30/smart-monitoring-happy-end-users/>

Segregation of Duties – Compensating Controls



Splitting duties between individuals

- Prevent controls – segregated duties can prevent errors & irregularities
- No single person authorizing, recording, custody of transactions
- More difficult with fewer employees
 - Compensating controls may be necessary

Segregation of Duties – Compensating Controls



Compensating for lack of segregation of duties

- One employee
- Control should prevent or detect errors or misstatements
- One person performs – another reviews/approves
 - Bank Reconciliation
 - AFR
 - Revenue reports

Internal Controls – What Do They Do / Don't Do



What Do They Do:

- Preventative
 - Designed to prevent errors/irregularities
- Detective
 - Designed to detect undesirable occurrences
- Promote effective operations
- Safeguard resources
 - Loss due to waste, misuse, fraud, etc.
- Develop reliable data for accurately reporting

Internal Controls – What Do They Do / Don't Do

**What Don't They Do:**

- Catch everything
 - Reduces risk / doesn't 100% eliminate it
- Result from strong policies & procedures
- They don't always work
 - If not effective, re-assess and make changes

Sample Internal Control Policies

**New Castle, Indiana:**

- www.cityofnewcastle.net/egov/documents/1465396308_11682.pdf

Camden, Indiana:

- www.townofcamden.org/wp-content/uploads/2014/09/Internal-Controls-Policy-and-Procedures.pdf

LaPorte, Indiana

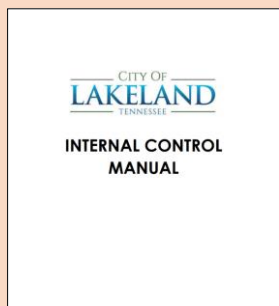
- www.cityoflaporte.com/DocumentCenter/View/1472/Ord--Internal-Control-Standards-5-11-2016?bidId=

Sample Internal Control Policies



Lakeland, Tennessee

- Suburb of Memphis / population 12,618 ('17)
- www.lakelandtn.gov/DocumentCenter/View/5531



Franklin, Tennessee

- Suburb of Nashville / population ~ 80,000
- www.franklintn.gov/home/showdocument?id=28021



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2019

Internal Controls – Useful Links



www.mtas.tennessee.edu/download/file/fid/48575

- Downloads pdf – is geared toward statutory provisions in Tennessee but methods could be used for Indiana municipalities)

www.vlct.org/resource/internal-financial-controls-checklist-municipalities

- Vermont has a league of cities and towns with this resource document

www.auditnet.org/audit-library/auditnet-internal-controls-primer

www.hudoig.gov/sites/default/files/Internal%20Controls%20Integrity%20Bulletin%20CPD.pdf

bizfluent.com/how-5120417-design-internal-control-system.html

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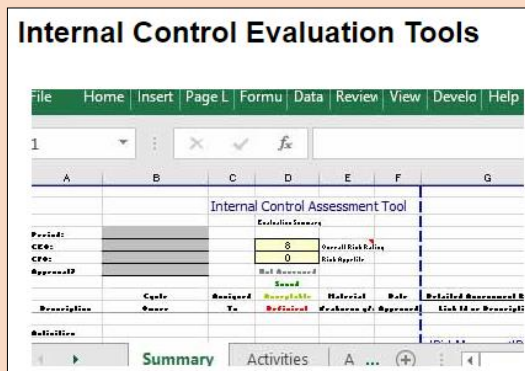
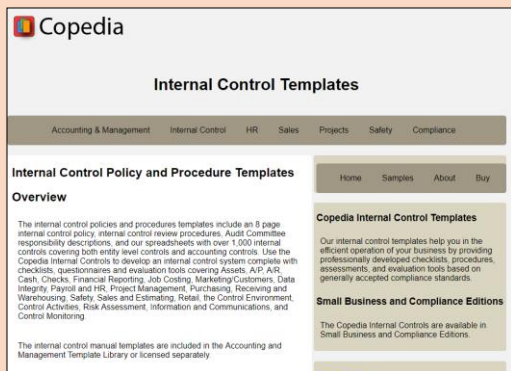
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Internal Controls – Useful Links

www.copedia.com/internal-controls.html

- Site has templates of policies and various materials to help – it does cost to download. Even if don't purchase templates, the information you can view for free is helpful)



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Case Studies

Do internal controls really matter?



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Case Study - Payroll

**Review Payroll Disbursements**

- 2nd person involved to review
- Compared disbursements to salary ordinance/schedule

Communication of Inconsistencies

- Reported to management

Case Study – Bank Reconciliation

**Monthly Bank Reconcilement**

- Ind. Code 5-13-6-1

Unidentified Transactions**Communication**

- Notified bank – loss timely reimbursed

Case Study – Receipts

**Historical Comparison**

- Reviewed receipts over a certain period

Unexplained Variances

- Significant decline noticed

Communication

- Notified SBOA and law enforcement

Case Study – Credit Cards

**Review of Supporting Documentation**

- Support for each disbursement on statement

Unusual Activity

- No support / personal purchases identified

Communication

- Notified fiscal officer

Reporting to SBOA – IC 5-11-1-27



- **All erroneous or irregular material**
 - ✓ Variances
 - ✓ Losses
 - ✓ Shortages, or
 - ✓ Thefts
- **Actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds**

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Reporting to SBOA – IC 5-11-1-27



www.in.gov/sboa - Responsibilities under IC 5-11-1-27

Responsibilities under IC 5-11-1-27 ▼

Pursuant to [IC 5-11-1-27\(j\)](#), all political subdivisions are required to report to us all erroneous or irregular material variances, losses, shortages, or thefts of local funds or property. For the purposes of this IC section, material is defined by the State Examiner in [State Examiner Directive 2015.6](#). Please use the following form to report this information to us. All fields are required.

Name: *

First Name

Last Name

Email: *

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Common Audit Findings



- **Did not separate incompatible activities related to receipts, disbursements, and payroll.**
- **Did not have a review or approval process over bank reconciliation or over financial close & reporting.**
- **There was no evidence of an oversight, review, or approval process.**

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Take Action



- ✓ **Review Internal Control Manual**
- ✓ **Continue to Establish Procedures**
- ✓ **Address all Five Internal Control Components**
- ✓ **Update Procedures as Needed**



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Questions



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